

**EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY
PROLIANCE SURGEONS, INC. PS PROPOSING TO ESTABLISH AN AMBULATORY
SURGERY CENTER IN SNOHOMISH COUNTY**

PROJECT DESCRIPTION

Proliance Surgeons, Inc., P.S. (PS, Inc.) is a Washington State corporation comprised of care centers, ambulatory surgery centers (ASCs), physical therapy, occupational therapy, and magnetic resonance imaging (MRI) facilities. Of these various types of healthcare facilities, only the ASCs are subject to state survey and regulations. PS, Inc. manages and operates 33 physician offices, which are located within King, Pierce, Skagit, and Snohomish counties. Of the 33 physician offices, six have ASCs associated with them. The chart below illustrates the six existing PS, Inc. ASCs. [source: CN historical files and PS, Inc. website]

County	Surgery Centers/City Location
King	Evergreen Orthopedic Surgery Center/Kirkland
	Evergreen Surgical Clinic/Kirkland
	Issaquah Surgery Center/Issaquah
	Valley Orthopedic Associates/Renton
Skagit	Skagit Island Orthopedic Surgery Center/Mount Vernon
Snohomish	Edmonds Center for Outpatient Surgery/Edmonds

This application focuses on the ASC located in Snohomish County, known as Edmonds Center for Outpatient Surgery (in bold above). On April 4, 2003, the department granted an exemption to PS, Inc. for the establishment of this ASC located at 7320 - 216th Southwest in the city of Edmonds, within Snohomish County. The exempt ASC has two operating rooms and is built out for a future capacity of four operating rooms and received Medicare certification in July 2003. [source: CN historical files and Application, pp2 & 8]

As an exempt ASC, only those physicians part of the Proliance corporation are allowed access to the ASC. Currently, the surgeries performed at Edmonds Center for Outpatient Surgery are orthopedic and general surgery. The ten Proliance physicians that perform surgeries at the exempt ASC are shown below by specialty. [source: Application, p3; and June 13, 2006, PUI responses]

General Surgery

Carol Cornejo, MD
Kurt Harmon, MD
Thomas Jurich, MD
Steven MacFarlane, MD
Michelle Sinnett, MD
Michael Zammit, MD

Orthopedic

James Alberts, MD
Brian Cameron, MD
Gary Forster, MD
Jeffrey Remington, MD

For this project, there are three main entities--J & J Edmonds, LLC; Edmonds Ambulatory Surgery Center, LLC; and Proliance Surgeons, PS. Below is a brief description of the roles and responsibilities for all three entities. [source: Application, pp6-8; and May 2, 2006 supplemental information, p3]

J & J Edmonds, LLC

J & J Edmonds is the landlord that developed the 73,318 square foot building at 7320 - 216th Southwest in Edmonds where the ASC is located. J & J Edmonds is a Washington State limited liability corporation with two members--Teutsch Partners¹ and the Stevens Healthcare hospital district (Snohomish County Public Hospital District #2).

Edmonds Ambulatory Surgery Center, LLC

This limited liability corporation is owned by seven of the ten physicians identified on page 1 and Stevens Healthcare hospital district.² The seven physicians each have 13.57% ownership (95%) total, and the hospital owns the remaining 5%. The ASC is located on the Stevens Hospital campus. Given that the hospital district could not participate at the Proliance Surgeons level, this mid-level holding company was established to allow the hospital some control over the operations of the ASC. Edmonds Ambulatory Surgery Center, LLC entered into a long-term lease agreement with J & J Edmonds for the space, equipped the ASC, developed the tenant improvements, and then sub-let the ASC to Proliance Surgeons, PS.

Proliance Surgeons, Inc.

For this project, Proliance Surgeons (PS, Inc.) is the applicant. Proliance Surgeons is a Washington State professional service corporation that sub-leases the ASC from Edmonds Ambulatory Surgery Center, LLC. All business functions, including management and billing, for the ASC are currently and will continue to be conducted by Proliance Surgeons. This entity has a CEO that reports directly to an 8-member board of directors.

This application proposes to open Edmonds Center for Outpatient Surgery to other physicians that are not part of the Proliance corporation. PS, Inc. indicates that if this project is approved, Edmonds Center for Outpatient Surgery would continue to offer at least orthopedic and general surgeries. [source: April 17, 2006, supplemental information, p3]

When an exempt ASC is established within twelve months before an application is submitted, the department requires the applicant to identify the capital costs for its establishment. Those costs are then used to determine the estimated capital expenditure of the project, even though the costs may already be expended. As previously stated, Edmonds Center for Outpatient Surgery became operational in July 2003. While PS, Inc. identified the costs to establish the exempt ASC to be \$2,407,265, given that the ASC has been operational for three years, the department will consider the capital costs to be zero. [source: CN historical files]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need review as the establishment of a new health care facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a).

¹ Teutsch Partners, LLC was formed in 1987 as a privately owned commercial and real estate development company. [source: Teutsch Partners website]

² The three physicians with no ownership interest are: James Alberts, Carol Cornejo, and Michael Zammit.

APPLICATION CHRONOLOGY

November 22, 2005	Letter of Intent Submitted
March 2, 2006	Application Submitted
March 3, 2006 through May 14, 2006	Department's Pre-Review Activities <ul style="list-style-type: none">• 1st screening activities and responses• 2nd screening activities and responses
May 15, 2006	Department Begins Review of the Application <ul style="list-style-type: none">• public comments accepted throughout review
July 13, 2006	Public Hearing Conducted/End of Public Comment
July 28, 2006	Rebuttal Documents Received at Department ³
September 11, 2006	Department's Anticipated Decision Date
September 25, 2006	Department's Actual Decision Date

AFFECTED PERSONS

Throughout the review of this project, no entities sought and received affected person status under WAC 246-310-010.

SOURCE INFORMATION REVIEWED

- Edmonds Center for Outpatient Surgery's Certificate of Need Application submitted March 2, 2006
- Edmonds Center for Outpatient Surgery's supplemental information dated May 2, 2006 and July 10, 2006
- Edmonds Center for Outpatient Surgery's pivotal unresolved issue documents dated June 13, 2006
- Public comment received throughout the review of the application
- Public hearing documents received at the July 13, 2006, public hearing
- Southwest Snohomish County ASC and/or operating room utilization survey responses
- Historical charity care data obtained from the Department of Health's Office of Hospital and Patient Data Systems (2002, 2003, and 2004 summaries)
- Office Financial Management updated population data released June 29, 2006
- Licensing and/or survey data provided by the Department of Health's Office of Health Care Survey
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Office of Hospital and Patient Data Systems
- Data obtained from the Medical Assistance Administration concerning Medicaid contracts
- Certificate of Need Historical files

CRITERIA EVALUATION

To obtain Certificate of Need approval, the applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment) and WAC 246-310-270 (ambulatory surgery).⁴

³ There were no rebuttal comments submitted related to this project.

⁴ Each criterion contains certain sub-criteria. The following sub-criteria are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6); WAC 246-310-220(3); and WAC 246-310-240(2) and (3).

CONCLUSION

For the reasons stated in this evaluation and agreement to the following term, Proliance Surgeons, Inc.'s application is approved to establish an ambulatory surgery center in the city of Edmonds within Snohomish County.

Before commencement of the project, Proliance Surgeons, Inc. must provide to the department for review and approval a copy of the revised Admissions Policy for Edmonds Center for Outpatient Surgery. The revised policy must include language ensuring all patients, including low-income, racial and ethnic minorities, handicapped and other underserved groups would have access to surgical services.

Provided that the applicant agrees to the term outlined above, a Certificate of Need would be issued with the conditions below.

1. Proliance Surgeons, Inc. will ensure that Edmonds Center for Outpatient Surgery will provide charity care in compliance with the charity care policies provided in its Certificate of Need application and the requirements of the applicable law. Edmonds Center for Outpatient Surgery will use reasonable efforts to provide charity care in an amount comparable to the average amount of charity care provided by Stevens Healthcare located in the southwest Snohomish planning area during the three most recent years. For historical years 2002-2004, these amounts are 0.93% of gross revenues and 1.79% of adjusted revenues. Edmonds Center for Outpatient Surgery will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies and applicable law.
2. Proliance Surgeons, Inc. will report to the Certificate of Need Program by March 31 of each year the amount of charity care provided at Edmonds Center for Outpatient Surgery during the previous calendar year.
3. Edmonds Center for Outpatient Surgery will maintain its participation in the Medicaid Program by maintaining its existing contract with Department of Socials and Health Services.

The facility, Edmonds Center for Outpatient Surgery, is located in the southwest Snohomish planning area. There is no capital expenditure associated with this project.

A. Need (WAC 246-310-210)

Based on the source information reviewed and subject to the term and conditions identified within this evaluation, the department determines that the application is consistent with the applicable need criteria in WAC 246-310-210.

(1) *The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need*

The Department of Health's Certificate of Need Program uses the numeric methodology found in WAC 246-310-270 for determining the need for additional ASCs in Washington State. The numeric methodology provides a basis of comparison of existing operating room (OR) capacity for both outpatient and inpatient OR's in a planning area using the current utilization of existing providers. The methodology separates Washington State into 54 separate secondary health services planning areas. The exempt ASC, which will not relocate, is currently located in the city of Edmonds, within the southwest Snohomish planning area.

The numeric methodology estimates OR need in a planning area using multi-steps as defined in WAC 246-310-270(9). This methodology relies on several variables: surgical use rates in the planning area, projected population of the planning area, existing supply of OR capacity, and the average times of inpatient and outpatient surgeries in the area. Using these variables, the methodology determines existing capacity of dedicated outpatient and mixed-use operating rooms in the planning area, subtracts this capacity from the forecast number of surgeries to be expected in the planning area in the target year, and examines the difference to determine:

- a) whether a surplus or shortage of OR's is predicted to exist in the target year, and
- b) if a shortage of OR's is predicted, the shortage of dedicated outpatient and mixed-use rooms are calculated.

To determine need for additional ORs in the planning area under WAC 246-310-270, the applicant relied on the variables or assumptions shown below.

Variables/Assumptions	Data Used
Planning Area	Southwest Snohomish County, resulting in 58.79% of the total Snohomish County population.
Population Estimates and Forecasts/Target Year	Using OFM population data released January 2000 and based on target year 2009.
Use Rate	Based on 1994 FASCAW ⁵ data, the use rate of 102/1,000 was applied to year 2005 and the projected 2009 population in the planning area identified above.
Percent of surgery: ambulatory vs. inpatient	72.3% ambulatory setting; 27.8% inpatient setting
Average minutes per case	Outpatient cases = 50 minutes; inpatient cases 100 minutes
Annual OR capacity in minutes	68,850 outpatient surgery minutes; 94,250 inpatient or mixed-use surgery minutes

⁵ Freestanding Ambulatory Surgery Centers of Washington, a nonprofit organization founded in 1993. More information can be found at www.fascaw.org

The applicant's methodology resulted in a projected need for 11 mixed-use ORs and 23 dedicated outpatient ORs for year 2009. [source: Application, pp17-25; Attachments II-2, IV-1, IV-3, IV-4, & IV-5]

The exempt ASC is currently located in the southwest Snohomish planning area. There are eight providers in the planning area--one hospital and seven ASCs. The eight providers are listed below. [source: CN historical files-Facilities and Services Licensing database]

Table I
Southwest Snohomish Planning Area Providers

1 Hospitals / City	7 ASCs / City
Stevens Healthcare / Edmonds	Edmonds Center of Outpatient Surgery / Edmonds (applicant) Edmonds Endoscopy Center / Edmonds Edmonds Surgery Center / Edmonds Kruger Clinic Orthopaedics / Edmonds Puget Sound Surgicenter / Edmonds Sound Urological Associates / Edmonds Virginia Mason Medical Center / Lynnwood

As shown in Table I above, the eight facilities include one hospital and seven ASCs, including the ASC associated with this project. The hospital has both inpatient and outpatient capacity, and the ORs will be included in the count of OR capacity in the southwest Snohomish planning area.

Of the seven ASCs shown in Table I, all are located within a solo or group practice, and therefore, the use of these ASCs is restricted to physicians that are employees or members of the clinical practices that operate the facilities. These seven facilities do not meet the ASC definition found in WAC 246-310-010, therefore, the ORs within those facilities will not be included in the capacity calculations of available ORs for the southwest Snohomish planning area.

To assist in its application of the numeric methodology for this project, in July 2006, the department requested utilization information from each of the eight facilities identified above. Responses were received from Stevens Healthcare and two of the seven exempt ASCs.⁶ Additionally, the applicant's data provided in the application was used to apply the numeric methodology. The department also relied on the following variables/assumptions to apply its methodology.

Variables/Assumptions	Data Used
Planning Area	Southwest Snohomish County, resulting in 58.79% of the total Snohomish County population.
Population Estimates and Forecasts/Target Year	Using OFM population data released June 29, 2006 and based on target year 2009.
Use Rate	Based on completed utilization surveys in the planning area, the use rate of 9.4/1,000 was applied to year 2005 and projected 2009 population in the planning area.
Percent of surgery: ambulatory vs. inpatient	Based on utilization surveys in the planning area, 30.27% ambulatory setting; 69.73% inpatient setting based

⁶ Kruger Clinic Orthopaedics and the ASC associated with Virginia Mason Medical Center submitted responses.

Variables/Assumptions	Data Used
Average minutes per case	Based on utilization surveys in the planning area, Outpatient cases = 67.44 minutes; inpatient cases 132.00 minutes
Annual OR capacity in minutes	68,850 outpatient surgery minutes; 94,250 inpatient or mixed-use surgery minutes

Using the variables and assumptions above and the department's count of available ORs in the southwest Snohomish planning area, the department's application of the numeric methodology indicates no need for additional mixed use ORs and a shortage of 1.21 outpatient ORs for the planning area in year 2009.⁷

When comparing the applicant's projections (need for 11 mixed use ORs and 23 dedicated outpatient ORs) and the department's projections, the difference in results can be attributed to the following three factors discussed below.

1) Population Estimates/Forecasts

When this application was submitted, the most recent population data obtained from the Office of Financial Management (OFM) was January 2000. On June 29, 2006, OFM released its updated population projection estimates. The updated estimates revealed that Snohomish County's January 2000 population estimates were overstated by approximately 10,935 persons for year 2005.⁸ The department used the most recent OFM data when evaluating this project. The department also used the applicant's third year of operation as its target year--year 2009.

2) Use Rate

The use rate used by the applicant in its projections is based on 1994 FASCAW data; the use rate of 102/1,000 was applied to the projected 2009 population results in the planning area. Based on utilization survey results provided by the providers in the southwest Snohomish planning area, the department applied a substantially lower use rate of 9.4/1,000.

3) Average Minutes per Case

The applicant used the default average minutes per case stated within the methodology. This default—50 minutes per outpatient and 100 minutes per inpatient—is used when data is unavailable. Based on utilization survey results provided by the providers in the southwest Snohomish planning area, the department used 67.44 minutes per outpatient and 132.0 per inpatient.

In summary, the department's methodology using the above assumptions indicates no need for additional mixed use ORs and a shortage of 1.21 outpatient ORs for the southwest Snohomish planning area in year 2009.

The department recognizes the use rate of 9.4/1,000 is substantially lower than other use rates it has applied in previous applications. The chart on the following page shows a summary of the recent applications reviewed by the department and the use rate applied to the service area based on completed utilization surveys.

⁷ The department's numeric methodology is Appendix A attached to this evaluation.

⁸ January 2000 projected year 2005 population in Snohomish County to be 666,735; June 29, 2006, projected 2005 population to be 655,800.

Decision Date	Name of Facility	Service Area	Use Rate / 1,000
05/12/06	Issaquah Surgery Center	East King	102
05/12/06	Swedish Health Services	East King	102
07/31/06	Skagit Island Orthopedic Surgery Center	East Skagit	114.59
08/22/06	West Tacoma Surgery Center	Central Pierce	88.69

As a result, the department concludes that the use rate of 9.4/1,000 probably substantially understates the actual use rate in the service area. The department also applied the use rate of 102/1,000 used by PS, Inc. within the application. Results of that methodology show a shortage of 39 inpatient ORs and a shortage of 13 outpatient ORs.

Given that the response rate related to the utilization surveys used for this application and the use rates used in previous ASC applications, the department concludes that the 9.4/1,000 use rate in the southwest Snohomish planning area is unlikely. The department attributes the 9.4/1,000 use rate to the low survey responses submitted by the existing providers. In summary, the department concludes that the shortage of outpatient ORs in the planning area would be at least 1.21 based on the 9.4 use rate, and could be as high as 13, using the 102/1,000 use rate.

To further demonstrate compliance with the need criterion under WAC 246-310-210, the applicant provided the following assertions. [source: Application: p20]

“Growth in the service area has been extraordinary, in 1981 Snohomish County population total 349,596. That same year, Stevens Hospital expanded to a 217 bed hospital facility with an OR capacity of 5 room. By 1997 Snohomish County population has risen to 551,200, an increase of 57.67%. Estimated growth for Snohomish County by the year 2010 expects population growth to reach 728,957. Since 1981, there has been only two additional outpatient ORs added to the service area, raising the OR capacity, (inpatient and outpatient) from 5 to 7, an increase of 40%. Both are single specialty; one dedicated to ENT and the other to orthopedics. These have done little to mitigate the OR needs of the service area.”

According to most recent OFM projections, population growth within Snohomish County and the southwest Snohomish planning area has not increased as rapidly as asserted above by the applicant. However, information within the application and data reviewed by the department indicates that need for additional OR capacity in the southwest Snohomish planning area has been demonstrated. Based on information provided within the application, this sub-criterion is met.

- (2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

As previously stated, PS, Inc owns and/or operates six ASCs in Washington State. Through these ASCs, PS, Inc has provided health care services to residents of the respective service areas. To demonstrate compliance with this criterion, the applicant provided a copy of Edmonds Center for Outpatient Surgery’s Admissions Policy, Patient’s Rights and Responsibilities Policy, and Charity Care Policy [sources: as noted] The department’s review of all three policies follows.

Admissions Policy [source: Application, Attachment III-4]

The Admission Policy outlines the process that the surgical center will use to admit patients and provides the overall guiding principles of the ASC as to the types of patients that are appropriate candidates to use the ASC. It also intended to ensure that patients will receive the appropriate surgical intervention at the ASC. The department concludes that the information contained in this policy appropriately identifies the types of patients that would be eligible for services at the ASC and prerequisites the patient must meet before having a procedure at the proposed ASC. Omitted from this document is the assurance that all patients, including low-income, racial and ethnic minorities, handicapped and other underserved groups would have access to surgical services. If this project is approved, the department would attach a term to the approval requiring PS, Inc. to submit a revised Admission Policy for Edmonds Center for Outpatient Surgery with the required language that ensures all patients, including low-income, racial and ethnic minorities, handicapped and other underserved groups would have access to surgical services. Additionally, the department expects PS, Inc. to maintain those assurances regardless of any future modifications to the policy.

Patient's Rights and Responsibilities Policy [source: May 2, 2006, supplemental information, Attachment 3]

This policy ensures the patient's ability to receive confidential care and treatment appropriate to the diagnosis, and the ability to participate actively in decisions regarding medical care provided. The policy also ensures that all patients would be admitted to the ASC without regard to age, race, color, religion, sex, national origin, handicap, or sexual preference and will be treated with respect and dignity.

Charity Care Policy [source: May 2, 2006, supplemental information, Attachment 4]

The Charity Care Policy provided in the application outlines the process to be used for patients to access financial assistance to pay for services provided at the ASC.

To determine whether low income residents would have access to the ASC, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination. Documentation provided in the application indicates that the six PS, Inc. practices that currently operate an exempt ASC may elect to participate in the Medicaid program even though the larger PS, Inc. does not. Information provided by the applicant verifies that Edmonds Center for Outpatient Surgery established its Medicaid contract December of 2005. Further, within the application, PS, Inc. provided the projected sources of revenues at Edmonds Center for Outpatient Surgery, which includes Medicare and Medicaid as revenue sources. Given that PS, Inc.'s general position is not to contract with Medicaid, if this project is approved, the department would attach a condition to the approval requiring Edmonds Center for Outpatient Surgery to maintain its Medicaid participation. [source: April 17, 2006, supplemental information, p4; May 2, 2006, supplemental information, Attachment 2]

WAC 246-310-270(7) states that ASCs shall implement policies to provide access to individuals unable to pay consistent with charity care levels reported by the hospitals affected by the proposed ASC. For charity care reporting purposes, the Department of Health's Office of Hospital and Patient Data Systems (OHPDS), divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Edmonds Center for Outpatient Surgery is located in southwest Snohomish planning area within the Puget Sound Region.

There are 18 existing hospitals currently operating within the Puget Sound Region, and of those, one hospital is located in the southwest Snohomish planning area that would be affected by the proposed ASC--Stevens Healthcare in Edmonds. For this project, the department reviewed charity care data for all 18 hospitals in the region and Stevens Healthcare located in the planning area. The tables below shows the 2002 - 2004 historical charity care percentages for the Puget Sound Region, Stevens Healthcare, and the applicant's projected charity care percentages. [source: OHPDS 2002 - 2004 charity care data and Application, p13]

Tables II
Years 2002 - 2004 Puget Sound Region-Charity Care Percentages

Year	Percentage of Total Revenue	Percentage of Adjusted Revenue
2002	0.89%	1.77%
2003	1.14%	2.29%
2004	1.82%	3.80%
3 Year Average	1.28%	2.62%

Years 2002 - 2004 Stevens Healthcare-Charity Care Percentages

Year	Percentage of Total Revenue	Percentage of Adjusted Revenue
2002	0.82%	1.57%
2003	0.84%	1.63%
2004	1.12%	2.19%
3 Year Average	0.93%	1.79 %

Applicant's Projected Charity Care Percentages

Years	Percentage of Total Revenue	Percentage of Adjusted Revenue
2006-2009	3.00%	6.67%

As shown above, the applicant's pro formas indicate that the ASC will provide charity care at approximately 3% of gross revenue, and 6.67% of adjusted revenue. [source: Application, p13] The projected averages are better than the average charity care provided in the Puget Sound Region, and better than the three-year average provided by Stevens Healthcare for historical years 2002-2004. To ensure the applicant would continue to meet its charity care obligations as required in WAC 246-310-270, if this project is approved, the department concludes that a condition related to the charity care to be provided at the ASC is necessary.

In summary, the department concludes that any approval of this project must include the following term related to the admission policy:

Before commencement of the project, Proliance Surgeons, Inc. must provide to the department for review and approval a copy of the revised Admissions Policy for Edmonds Center for Outpatient Surgery. The revised policy must include language ensuring all patients, including low-income, racial and ethnic minorities, handicapped and other underserved groups would have access to surgical services.

Additionally, the department concludes that any approval of this project must include the conditions identified on the following page.

1. Proliance Surgeons, Inc. will ensure that Edmonds Center for Outpatient Surgery will provide charity care in compliance with the charity care policies provided in its Certificate of Need application and the requirements of the applicable law. Edmonds Center for Outpatient Surgery will use reasonable efforts to provide charity care in an amount comparable to the average amount of charity care provided by Stevens Healthcare located in the southwest Snohomish planning area during the three most recent years. For historical years 2002-2004, these amounts are 0.93% of gross revenues and 1.79% of adjusted revenues. Edmonds Center for Outpatient Surgery will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies and applicable law.
2. Proliance Surgeons, Inc. will report to the Certificate of Need Program by March 31 of each year the amount of charity care provided at Edmonds Center for Outpatient Surgery during the previous calendar year.
3. Edmonds Center for Outpatient Surgery will maintain its participation in the Medicaid Program by maintaining its existing contract with Department of Socials and Health Services.

Provided the applicant agrees to the above term and conditions, this sub-criterion is considered met.

B. Financial Feasibility (WAC 246-310-220)

Based on the source information reviewed and subject to the term and conditions identified within this evaluation, the department determines that the application is consistent with the applicable financial feasibility criteria in WAC 246-310-220.

(1) *The immediate and long-range capital and operating costs of the project can be met.*

Historical CN files confirm that Edmonds Center for Outpatient Surgery became operational as an exempt ASC in July 2003. Table III below shows the historical and projected number of surgeries performed at the ASC. [source: June 13, 2006, PUI responses, p2]

**Table III
Edmonds Center for Outpatient Surgery
Historical Number of Surgeries by Type**

	Year 2003	Year 2004	Year 2005	Partial Year 2006
Orthopedic	404	1,112	1,361	763
General	339	788	851	299
Totals	743	1,900	2,212	1,062

Projected Number of Surgeries by Type

	Partial Year 2006	Year 2007	Year 2008	Year 2009
Orthopedic	893	1,620	1,710	1,800
General	595	1,080	1,140	1,200
Totals	1,488	2,700	2,850	3,000

As shown in Table III, PS projects approximately 5% increase in the total projected number of surgeries from year one to year two; and again from year two to three. The applicant provided the following rationale for the projections above.

“Utilization assumptions were based on a review of 2003, 2004 & 2005 outpatient surgical volumes provided by both the core groups of orthopedic and general surgeons. The year 2006 projections are based on 2005 volumes plus an additional 5%; this number is based on the continued practice growth of the existing physician base. In the three subsequent years of operation, 2007, 2008, & 2009, a utilization increase of 5% was applied to the 2006 estimated base. Conservative growth estimates were used to demonstrate the facilities financial feasibility.”

[source: Application, p24]

To determine whether the ASC would meet its immediate and long range operating costs, the department evaluated Edmonds Center for Outpatient Surgery’s projected balance sheets through the project’s third full year of operation (2009). A summary of the balance sheets for the ASC’s first three full years of operation is shown below. [source: Application, Attachment IV-8]

Tables IV
Edmonds Center for Outpatient Surgery
Balance Sheets for Years 2007-2009
Year 2007

Assets		Liabilities	
Current Assets	\$ 300,000	Current Liabilities	\$ 247,852
Fixed Assets	781,632	Other Liabilities (long term debt)	950,720
Other Assets	892,645	Total Liabilities	\$ 1,198,572
Total Assets	\$ 1,974,277	Equity	\$ 775,705
		Total Liabilities and Equity	\$ 1,974,277

Year 2008

Assets		Liabilities	
Current Assets	\$ 1,312,114	Current Liabilities	\$ 266,800
Fixed Assets	787,632	Other Liabilities (long term debt)	691,253
Other Assets	617,292	Total Liabilities	\$ 958,053
Total Assets	\$ 2,717,038	Equity	1,758,985
		Total Liabilities and Equity	\$ 2,717,038

Year 2009

Assets		Liabilities	
Current Assets	\$ 2,326,249	Current Liabilities	\$ 279,483
Fixed Assets	794,832	Other Liabilities (long term debt)	411,770
Other Assets	341,938	Total Liabilities	\$ 691,253
Total Assets	\$ 3,463,019	Equity	2,771,766
		Total Liabilities and Equity	\$ 3,463,019

Based on the projected balance sheets, it is clear that Edmonds Center for Outpatient Surgery would be a financially stable ASC. Further, a review of the balance sheets provided in the application indicates that the ASC intends to acquire very little long term debt for this project.

Additionally, the ASC's debt service coverage is considered well above the average due to the applicant's intent to pay off its debt fairly quickly. While this approach by the applicant is ambitious, it is not an unusual approach for an ASC.

Based on the financial information above, the department concludes that the long-term capital and operating costs of this project can be met, and this sub-criterion is met.

- (2) The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.

Table V below details the projected revenues and expenses for Edmonds Center for Outpatient Surgery's first three full years of operation based on the projected number of surgeries shown in Table III of this evaluation. [source: May 2, 2006, supplemental information, Appendix 7; June 13, 2006, supplemental information, & July 10, 2006 supplemental information]

Table V
Edmonds Center for Outpatient Surgery
Revenue and Expense Summary Projected Years 2007 through 2009

	Full Year 1 (2007)	Full Year 2 (2008)	Full Year 3 (2009)
# of Surgeries	2,700	2,850	3,000
Net Patient Revenue*	\$ 3,696,000	\$ 3,806,880	\$ 3,883,018
Total Expense	\$ 2,471,981	\$ 2,618,196	\$ 2,787,121
Net Profit or (Loss)	\$ 1,224,019	\$ 1,188,684	\$ 1,095,897
Net Revenue per Surgery	\$ 1,368.89	\$ 1,335.75	\$ 1,294.34
Total Expenses per Surgery	\$ 915.55	\$ 918.67	\$ 929.04
Net Profit or (Loss) per Surgery	\$ 453.34	\$ 417.08	\$ 365.30

*Includes deductions for bad debt, charity care, and contractual write-offs

As noted in Table V, the ASC would be operating at a profit through the first three years of operation; while the net profit decreases in each of those three years, it is not a substantial decrease.

In addition to the pro forma projections provided above, PS, Inc also provided the following statements related to the assumptions used as a basis for the projections at the ASC. [source: Application, pp24-25]

"The variables used in projecting surgical needs were: 1) use rates; 2) additional/retiring providers. As stated above, utilization forecasts were based on actual surgical volumes for the facility. Using those as a base we then made assumptions for five years. ...the 5% utilization increase is due the continued internal growth of additional physician providers associated with the exempt facility. With growing population comes additional providers. It is expected that by the center's second year of operation [2008], one additional orthopedic surgeon will be on staff. Also considered was the recent addition of two new general surgeons, their surgical volumes were relatively modest during the 2005 "benchmark" year. It is expected that by the second year of operation, most of the productivity will come from the more 'junior' members of the group."

Documents provided in the application, indicate that the Edmonds Center for Outpatient Surgery would offer general and orthopedic surgeries. CN program staff compared the projected costs and

charges above to those of recent ASC applications. That comparison reveals that the costs and charges identified above are comparable to those shown in like-type ASC applications.

Based on the information provided above, the department concludes that the cost of the project will not result in an unreasonable impact on the costs and charges for health services within the service area. This sub-criterion is met.

C. Structure and Process (Quality) of Care (WAC 246-310-230)

Based on the source information reviewed and subject to the term and conditions identified within this evaluation, the department determines that the application is consistent with the applicable structure and process (quality) of care criteria in WAC 246-310-230.

(1) A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.

Given that the ASC is currently operating, the applicant anticipates a minimal increase in staff for year 2007, and no increase thereafter. Staff increases are based on the projected increase in surgeries at the ASC. Table VI below summarizes the current and projected staffing of Edmonds Center for Outpatient Surgery. [source: Application, p24]

**Table VI
Edmonds Center for Outpatient Surgery
Current and Projected Staffing**

Current and Projected Staffing	Current	Year 1 - Increase	Total
Nurse Director	1	0	1
Pre-Op / Recovery (RN / LPN)	3	1	4
Circulate RN	2	0	2
Scrub Technician	2	1	2
Instrument Tech	0	1	1
Float RN	1	0	1
Reception/Billing Clerk	2	1	3
Total FTEs	11	3	14

As shown above in Table VI, the applicant anticipates a small increase in FTEs in year one if this project is approved. The applicant also states that the surgeries, and therefore the staff, of the existing ASC have continued to grow since opening the facility in 2003. Given the small FTE increase, existing part-time staff that desire full-time employment at the ASC will be accommodated, and any vacancies will be filled via advertising. [source: Application, p30]

Because PS, Inc will continue to have ownership in the facility, it is a reasonable assumption that many, if not all, of the current staff of the ASC will remain employed by the ASC if this project is approved. The department concludes that it is reasonable and prudent for the applicant to maintain current staff of the exempt ASC to ensure adequate staffing.

Based on the information provided in the application, the department concludes that PS, Inc provided a comprehensive approach to recruit and retain staff necessary for the ASC. This sub-criterion is met.

- (2) The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.

Given that Edmonds Center for Outpatient Surgery is currently operating as an exempt ASC, ancillary and support agreements are already in place. To demonstrate compliance with this sub-criterion, the applicant provided copies of its existing service contracts and/or agreements. Below is a summary of the types of agreements provided. [source: Application, Attachments III-8, III-6, & IV-6]

- Ancillary Service Agreements, including equipment, anesthesia, linen, medical waste, and pharmaceutical
- Patient Transportation Agreements w/ local medical transportation companies
- Medical Director Job Description (not a contracted or compensated position)

After reviewing the documents above, the department concludes that the applicant has demonstrated compliance with this sub-criterion. This sub-criterion is met.

- (3) There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.

As stated in the project description portion of this evaluation, the applicant, PS, Inc., operates six ASCs, including the ASC associated with this project. The Department of Health's Office of Health Care Survey (OHCS), which surveys ASCs within Washington State, has completed a total of eleven compliance surveys for the PS, Inc. facilities.⁹ Of the six facilities, three had no deficiencies and three were cited for minor non-compliance issues. The non-compliance issues were typical for the type of facility and PS, Inc. submitted a plan of corrections and implemented the required corrections. [source: compliance survey data provided by Office of Health Care Survey]

Steve MacFarlane, MD is the current medical director for the ASC. PS, Inc. states this position is neither contracted, nor compensated. The physician owners of Edmonds Center for Outpatient Surgery agree to share the medical director responsibilities among themselves. To demonstrate compliance with this sub-criterion, PS, Inc. provided a copy of the job description outlining the duties of the medical director and a listing of current credentialed or licensed staff of the ASC. The Department of Health's Medical Quality Assurance Commission credentials all staff in Washington State. A review of the compliance history for all medical staff associated with the ASC reveals no recorded sanctions for all. [source: compliance history provided by Medical Quality Assurance Commission]

Given the compliance history of all of the ASC 's owned and/or operated by PS, Inc and the compliance history of the staff currently associated with the ASC, there is reasonable assurance that PS, Inc. would continue to operate the ASC in conformance with applicable state and federal licensing and certification requirements. This sub-criterion is met.

⁹ Surveys conducted: Evergreen Orthopedic Surgery Center-2003; Evergreen Surgical Clinic-1994, 1998, and 2002; Issaquah Surgery Center-2004; Valley Orthopedic Associates Surgery Center-1999 and 2005; Edmonds Center for Outpatient Surgery-1992, 1996, and 2003; Skagit Island Orthopedic Surgery Center-2003.

- (4) The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.

As noted earlier in this evaluation, the existing ASC is already operating as an exempt ASC, therefore, Edmonds Center for Outpatient Surgery already has established relationships with the existing health care system.

As previously stated in the need section of this evaluation, documentation provided in the application verifies that Edmonds Center for Outpatient Surgery established its Medicaid contract December of 2005. Given that PS, Inc.'s general position is not to contract with Medicaid, the department concluded that any approval of this project would include a condition requiring Edmonds Center for Outpatient Surgery to maintain its Medicaid participation.

After reviewing the information above, the department concludes that the applicant demonstrated its existing relationships with ancillary and support services for the health care services are appropriate. Additionally, the applicant currently meets all of the necessary documentation required for the operation and management of the ASC. With the applicant's agreement to the condition requiring Edmonds Center for Outpatient Surgery to maintain its Medicaid participation, approval of this project would not result in an unwarranted fragmentation of services, and this sub-criterion would be met.

- (5) There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.

This sub-criterion is evaluated in sub-section (3) above, and based on that evaluation, the department concludes that this sub-criterion is met.

D. Cost Containment (WAC 246-310-240)

Based on the source information reviewed and subject to the term and conditions identified within this evaluation, the department determines that the application is consistent with the applicable cost containment criteria in WAC 246-310-240.

- (1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.

The applicant states that its decision to proceed with this project was made after reviewing several key criteria and determining that the project was warranted. Key considerations identified by the applicant and related to this sub-criterion are restated below:

- Cost - dramatically increasing patient costs, such as premiums and co-pays, are forcing today's healthcare consumers to seek more cost-effective alternatives. The increased availability of "Part B" outpatient facilities can represent significant savings to the consumer.
- Legal Restrictions - the applicant reviewed this project from a variety of legal perspectives. At the federal level, the recent establishment of the "safe-harbor" for physician owned surgery center would almost appear to encourage the development of these facilities..

[source: Application, pp32-33]

The applicant also contends that historically, it has been difficult for physicians and hospitals to partner on projects of this type. There are a variety of economic, regulatory, practical, and cultural reasons why these arrangements generally are not feasible. However, for this project, Stevens Hospital and local physicians have joined together to establish an ASC on the hospital campus. Additionally, since Stevens Hospital has ownership interest in the project, cooperative planning has been inherent since inception of the project. [source: Application, p31]

Further, this project does not require any additional capital costs if approved and the project would improve system efficiencies because conversion of this exempt facility to a CN approved facility will insure that physicians who wish access to a facility of this type would have that option. Further, the applicant asserts that physician owned ASCs are one of the few attractive “talking-points” when recruiting new physicians to Washington State. The opportunity to have ownership in efficient, outpatient ancillaries, such as ASCs, and the revenue from those ancillaries is critical when trying to attract new physicians. The applicant further states that if approved, this ASC would be the only physician-owned ASC in the planning area. [source: Application, pp33]

In the need portion of this evaluation, the department concluded that PS, Inc. demonstrated need for the additional ORs, and the project met the criteria within financial feasibility and structure and process of care.

In summary, the department concludes that the applicant chose the one of the best available options for the patients and the community. Based on the information provided above, the department concludes that this project is consistent with this sub-criterion.